

Rising Prices Persist as Spending Levels Off

Ukraine, China, and other Factors Keep Costs Elevated

The economic recoveries in the U.S. and Canada continue despite circumstances characterized by stubbornly elevated inflationary pressures, brutal war, and ongoing COVID-19 inspired lockdowns. However, the paths that construction is following in the two nations has begun to diverge. The U.S. construction industry added 36,000 net new jobs in May representing nearly 10 percent of all jobs added across all industries in America that month. In Canada, construction lost 3,000 positions on net even as the broader economy added nearly 40,000 jobs for the month. The unemployment rate in the U.S. remained unchanged at 3.6 percent, while unemployment in Canada dipped slightly to 5.1 percent, which is extraordinarily low by Canadian standards.

Over the last 25 months (since the start of the economy recovery in May 2020), the U.S. construction industry has recovered all the jobs lost due to the pandemic. As of May 2022, there are 40,000 more construction jobs than there were in February 2020, the month before the pandemic produced large-scale economic lockdowns. In Canada, there are 24,000 more construction jobs over the same time period, which proportionately speaking represents far superior performance.

Both nations have been broadly characterized by the following dynamic—while the cost of delivering construction services has skyrocketed in the context of atmospheric materials prices and strained labor market capacity, for the most part contractors have been able to pass those cost increases along to project owners. However, with the risk of recession elevated and borrowing costs rising rapidly, the question becomes whether project owners will become more resistant to higher delivery charges. It is also possible that more projects will be delayed or cancelled in the context of weaker economic performance, rising cost of capital, and unusually elevated construction costs.

Construction Spending Dips in Canada and the U.S.

It is conceivable that these dynamics are already playing out. In April, nonresidential construction spending was down 0.4 percent in the U.S. and 0.3 percent in Canada. Total construction spending increased slightly, 0.2 percent, in the U.S., as residential construction spending rose by nearly 1 percent for the month. The same cannot be said for Canada. Total construction spending was down 2.2 percent in March 2022. These figures do not account for inflation. Spending dipped despite high prices received for services, suggesting that unit volume has begun to falter. Accordingly, profit margins are at risk, and many contractors currently operating at capacity may not be over the months to come.

Inflation Rears Its Ugly Head

The most salient aspect of economic life will continue to be inflation over the year to come. According to data published by the U.S. Bureau of Labor Statistics, the producer price index for construction materials was 46.7 percent higher in April 2022 than it was in February 2020. Elevated oil and natural gas prices continue to ripple through the economy, impacting both production and distribution costs.

- The U.S. and Canadian economies continues to add jobs at a rapid clip
- In April, construction employment grew in the U.S. but declined 0.2% in Canada
- Construction spending fell in the most recent month in Canada but inched higher in the U.S.
- U.S. input prices increased 0.8% in April and are 23.7% higher than a year ago;
- In Canada, residential and nonresidential input prices are up 5.6% and 2.6%, respectively, for the quarter, and are up 22.6% and 12.8% on a year-over-year basis.

At the time of this writing, there has been recent relief in the form of lower oil, natural gas, and steel prices. The global economy is slowing. The Chinese economy, an outsized consumer of global construction materials, is slowing in the context of diminished Western investment and ongoing Covid-related lockdowns. It is therefore conceivable that materials prices will continue to slide going forward, helping the North American construction industry avoid a downturn.

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Apr-22	Mar-22	Apr-21	Mar-22	Apr-21
<i>Total Construction</i>	\$1,744,801	\$1,740,614	\$1,553,547	0.2%	12.3%
<i>Residential</i>	\$900,440	\$892,537	\$761,588	0.9%	18.2%
<i>Nonresidential</i>	\$844,362	\$848,077	\$791,959	-0.4%	6.6%
Lodging	\$17,316	\$17,116	\$22,069	1.2%	-21.5%
Office	\$84,664	\$84,953	\$80,739	-0.3%	4.9%
Commercial	\$102,371	\$102,794	\$86,698	-0.4%	18.1%
Health care	\$50,137	\$50,962	\$47,837	-1.6%	4.8%
Educational	\$98,022	\$98,429	\$99,580	-0.4%	-1.6%
Religious	\$2,648	\$2,861	\$3,106	-7.4%	-14.7%
Public safety	\$10,409	\$10,608	\$11,592	-1.9%	-10.2%
Amusement and recreation	\$26,129	\$25,846	\$24,908	1.1%	4.9%
Transportation	\$55,164	\$56,024	\$55,869	-1.5%	-1.3%
Communication	\$21,908	\$21,847	\$21,752	0.3%	0.7%
Power	\$116,141	\$117,921	\$114,344	-1.5%	1.6%
Highway and street	\$104,071	\$104,331	\$97,674	-0.2%	6.5%
Sewage and waste disposal	\$30,230	\$30,247	\$27,620	-0.1%	9.4%
Water supply	\$19,212	\$19,791	\$18,815	-2.9%	2.1%
Conservation and development	\$9,029	\$9,063	\$7,111	-0.4%	27.0%
Manufacturing	\$96,911	\$95,283	\$72,247	1.7%	34.1%
Employment, SA (in thousands)	May-22	Apr-22	May-21	Apr-22	May-21
National Total Nonfarm	151,682	151,292	145,141	0.3%	4.5%
Construction	7,664	7,628	7,381	0.5%	3.8%
Residential building	903	898	854	0.6%	5.8%
Nonresidential building	811	809	786	0.3%	3.2%
Heavy and civil engineering construction	1,084	1,073	1,044	1.1%	3.8%
Residential specialty trade contractors	2,255	2,243	2,176	0.5%	3.6%
Nonresidential specialty trade contractors	2,612	2,606	2,522	0.2%	3.6%
Producer Price Index	Apr-22	Mar-22	Apr-21	Mar-22	Apr-21
Inputs to Construction Industries	323.9	321.4	261.9	0.8%	23.7%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Mar-22	Feb-22	Mar-21	Feb-22	Mar-21
<i>Total Construction</i>	\$16,773	\$17,150	\$14,761	-2.2%	13.6%
<i>Residential</i>	\$11,819	\$12,181	\$10,412	-3.0%	13.5%
<i>Nonresidential</i>	\$4,954	\$4,969	\$4,349	-0.3%	13.9%
Industrial	\$851	\$872	\$763	-2.4%	11.5%
Commercial	\$2,817	\$2,796	\$2,475	0.7%	13.8%
Institutional and Governmental	\$1,287	\$1,302	\$1,111	-1.1%	15.9%
Employment, SA (in thousands)	May-22	Apr-22	May-21	Apr-22	May-21
Total All Industries	19,640.3	19,600.5	18,584.8	0.2%	5.7%
Construction	1,510.2	1,513.2	1,434.2	-0.2%	5.3%
Building Construction Price Index	2022Q1	2021Q4	2020Q3	2021Q4	2021Q1
Residential Building	151.2	143.2	123.3	5.6%	22.6%
Nonresidential Building	125.1	121.9	110.9	2.6%	12.8%